



ASX Trade Cancellation Ranges:

**Response to the Consultation on Change to ETO
cancellation ranges and QCR process**

October 2022

Contents



Consultation Process	3
1. Change the ETR range for Exchange Traded Options to a 1x multiplier for all ETO Series	4
2. Introduce a minimum range for the ETR upper and lower calculation	5
3. Amendment of the QCR consent timeframe from 5 minutes to 10 minutes	7
4. Incorporation of TMC cancelation and re-pricing in the Request for Cancellation	8
5. Other comments made by respondents	9

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Consultation Process

On December 6 2021 ASX released a consultation paper seeking comment from stakeholders regarding the ASX Trade Cancellation Policy.

The consultation paper was as a result of customer feedback on the Trade Cancellation policy for ASX Trade. The ASX consulted on three main topics being;

- Cancellation ranges that are currently prescribed under section 3200 of the ASX Operating Rules Procedures for Exchange Traded Option products
- The consent time for Qualifying Cancellation Range (QCR) across all ASX Trade products being extended from 5 minutes to 10 minutes
- The timing for requests to cancel and re-price Tailor Made Combinations (TMC's) be incorporated into the current timeframes used for Request for Cancellation in Operating Rule Procedure 3200

ASX received 10 responses to the consultation paper. Some follow-up discussions have subsequently taken place with some parties to better understand their views.

A summary of the ASX actions from the consultation paper are below:

Question	ASX Action	Timeframe to Implement
Should ASX amend the ETR upper and lower calculation to a 1 x calculation for ALL ETO series?	ASX will amend the ETR range to a 1x calculation for Exchange Traded Options	6-8 weeks – Effective Nov 22
Should ASX introduce a minimum range of +/- 10c (Single Stock) or +/- 5pts (Index) for the ETR upper and lower calculation?	ASX will NOT introduce a minimum range of +/- 10c (Single Stock) or +/- 5pts (Index) for Extreme Trade Range calculations	N/A
Should ASX amend the time given to consent to a cancellation that has been identified as being in the QCR from 5 minutes to 10 minutes?	ASX will amend the response time for a response to a QCR from 5 to 10 minutes.	6-8 weeks – Effective Nov 22
Should ASX include requests for a re-pricing of TMC trades in the standard cancellation timeframes	ASX will NOT include TMC re-pricing requests in the cancellation framework, but will introduce a 16:40 cut off	6-8 weeks – Effective Nov 22

1. Change the ETR range for Exchange Traded Options to a 1x multiplier for all ETO Series

The purpose of this change would be to;

- Align the calculation process to be consistent across all ETO expiries.
- Partially account for the changes to the ETO Market Making scheme made in October 2021 whereby option maturities greater than 12 months had their spreads increased for market making purposes.

Current ranges

Cancellation Ranges for ETOs	<p>ETO Cancellation Ranges (for Equity and Index ETOs)</p> <p>The QCR will be the difference between the ETO Reference Price and the ETR.</p> <p>The ETR is based on the Market Maker spread requirements as per the ETO class quoting schedules which are available at http://www.asx.com.au/documents/products/asx_eto_market_making_scheme.pdf</p> <p>For ETOs due to expire within or equal to 12 months from the trade date, the ETR will be calculated as:</p> <p style="padding-left: 40px;">ETR Lower Limit = ETO Reference Price - (Market Maker quoting schedule spread x 1.0)</p> <p style="padding-left: 40px;">ETR Upper Limit = ETO Reference Price + (Market Maker quoting schedule spread x 1.0)</p> <p>For ETOs due to expire greater than 12 months from the trade date, the ETR will be calculated as:</p> <p style="padding-left: 40px;">ETR Lower Limit = ETO Reference Price - (Market Maker quoting schedule spread x 2.0)</p> <p style="padding-left: 40px;">ETR Upper Limit = ETO Reference Price + (Market Maker quoting schedule spread x 2.0)</p> <p>The ETR for a Derivatives Combination Trade which has one counterparty on each side may be determined by either the higher of the Combination as a net price or the higher of one of the component series which make up the Combination.</p>
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Proposed new ranges

Cancellation Ranges for ETOs	<p>ETO Cancellation Ranges (for Equity and Index ETOs)</p> <p>The QCR will be the difference between the ETO Reference Price and the ETR.</p> <p>The ETR is based on the Market Maker spread requirements as per the ETO class quoting schedules which are available at https://www2.asx.com.au/content/dam/asx/participants/derivatives-market/equity-derivatives/asx-eto-market-making-scheme.pdf</p> <p>For ETOs, the ETR will be calculated as:</p> <p style="padding-left: 40px;">ETR Lower Limit = ETO Reference Price – (Market Maker quoting schedule spread) x 1.0</p> <p style="padding-left: 40px;">ETR Upper Limit = ETO Reference Price + (Market Maker quoting schedule spread) x 1.0</p> <p>The ETR for a Derivatives Combination Trade which has one counterparty on each side may be determined by either the higher of the Combination as a net price or the higher of one of the component series which make up the Combination.</p>
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The majority of respondents were supportive of the proposal to move the ETR upper and lower calculation limits to a 1 x multiple.

It should be noted that the above change will only impact ETOs whereby their maturity is greater than 12 months. Options with a maturity of up to 12 months remain unchanged.

ASX believes that if the ETR calculation range is not appropriate then this would also suggest the market maker spreads should be adjusted which would address concerns raised by some respondents.

Please note ASX changed the ETO Market Making scheme in October 2021. The effect of the new scheme was to introduce up to 3 different quoting schedule for each ETO Class based on the option's maturity.

ASX sought market feedback on the timeframe for this change and the consensus was 6 weeks would be suitable. ASX therefore propose to make this change effective the week of 28 November 2022.

2. Introduce a minimum range of +/- 10c (Single Stock) or +/- 5pts (Index) for the ETR upper and lower calculation

This change would result in the below update to **Procedure 3200** of the **ASX Trade Operating Rules Procedures**

Cancellation Ranges for ETOs	<p>ETO Cancellation Ranges (for Equity and Index ETOs)</p> <p>The QCR will be the difference between the ETO Reference Price and the ETR.</p> <p>The ETR is based on the Market Maker spread requirements as per the ETO class quoting schedules which are available at https://www2.asx.com.au/content/dam/asx/participants/derivatives-market/equity-derivatives/asx-eto-market-making-scheme.pdf</p> <p>For ETOs, the ETR will be calculated as:</p> <p style="padding-left: 40px;">ETR Lower Limit = ETO Reference Price – ((the higher of 10c (for single stock options) / 5 points (for XJO) or Market Maker quoting schedule spread) x 1.0)</p> <p style="padding-left: 40px;">ETR Upper Limit = ETO Reference Price + ((the higher of 10c (for single stock options) / 5 points (for XJO) or Market Maker quoting schedule spread) x 1.0)</p> <p>The ETR for a Derivatives Combination Trade which has one counterparty on each side may be determined by either the higher of the Combination as a net price or the higher of one of the component series which make up the Combination.</p>
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The majority of respondents were NOT supportive of the proposed introduction of a minimum range for the ETR upper and lower calculations.

The reason given for not introducing the change;

- The minimum value would produce an ETR range too wide for low premium options. Options with low premium, in general, have higher traded volumes which would equate to an increase in the potential loss on the back of an error.
- Adds more complexity to the methodology which is currently consistent across all option series.
- The market maker scheme is granular in nature and accounts for lower value versus higher value option contracts.

There will be no changes to the current rules to reflect the above.

3. Amendment of the QCR consent timeframe from 5 minutes to 10 minutes

All but 1 respondent were in favour of amending the time given to consent to a cancellation that has been identified as QCR from 5 minutes to 10 minutes.

The purpose of this change is to;

- Allow more time for appropriate communication with counterparties and end clients in regards to QCR errors so that a better informed decision can be made.

This change would result in the below update to **Procedure 3200** of the **ASX Trade Operating Rules Procedures**

Cancellation Ranges	On receipt of the email request, ASX will refer to the Reference Price for that product and then assess whether the trade qualifies for cancellation during continuous trading as follows:	
	Shares, Company Options, ETFs, Managed Fund Products, CDIs, CGS, Interest Rate Securities and Futures	
	Range	Outcome
	At or within the NCR (No Cancellation Range)	The trade will not be cancelled.
	At or within the QCR (Qualifying Cancellation Range)	The trade will only be cancelled if the Participant counterparty to the trade consents within 10 minutes from contact by ASX Trading Operations.
	At or within the ETR (Extreme Trade Range)	ASX will cancel the trade subject to any exceptions. If a Participant has requested a cancellation and the trade is determined by ASX to be within the ETR, Rule [3200] ceases to apply and Rule [3210] applies.
	Warrants, Structured Products and ETOs	
	Range	Outcome
	At or within the QCR (Qualifying Cancellation Range)	The trade will only be cancelled if the Participant counterparty to the trade consents within 10 minutes from contact by ASX Trading Operations.
	At or within the ETR (Extreme Trade Range)	ASX will cancel the trade subject to any exceptions. If a Participant has requested a cancellation and the trade is determined by ASX to be within the ETR, Rule [3200] ceases to apply and Rule [3210] applies.

ASX sought market feedback on the timeframe for this change and the consensus was 6 weeks would be suitable. ASX therefore propose to make this change effective the week of 28 November 2022.

4. Should ASX include requests for a re-pricing of TMC trades in the standard cancellation timeframes?

The majority of respondents were against aligning ETO re-pricing requests within the Request for Cancellation rule procedures. The main reason given for this response is that it would ultimately increase the amount of ASX rejections for this action due to timing breaches.

As a re-pricing of a TMC to TMC trade doesn't change the net price or risk exposure of the deal, ASX feels that setting just an end of day cut-off to be the most appropriate action.

Based on the responses of the consultation ASX will be introducing a hard cut-off time of 4.40pm for requests to be received for the re-pricing of TMC transactions. Requests received after this cut-off time will be rejected. This change will be effective the week of 28 November 2022.

This change would result in the below update to **Procedure 3200** of the **ASX Trade Operating Rules Procedures**

Individual assessment of each leg of a trade	All products	<p>1. Combination Order matches another Combination Order</p> <p>For trades which resulted from a Combination Order matching a Combination Order, the net price of the entire Combination will be used when assessing if the combination falls within the QCR. If the net price is in the ETR the resultant trades can be cancelled or repriced/rebooked. The ASX will only be able to facilitate the cancellation of all legs where there is only one counterparty to all legs of the trade and that counterparty consents.</p> <p>OR</p> <p>2. Cancellation of Non-ETR leg of Combination Trade</p> <p>A Participant that is party to a Combination Trade where one leg is within the ETR (and is to be cancelled) can request that the leg of the trade that is not within the ETR is also cancelled. The ASX will only be able to facilitate the cancellation of all legs where there is only one counterparty to all legs of the trade and that counterparty consents.</p> <p>OR</p> <p>3. The ETR leg is re-priced</p> <p>A Participant that is party to a Combination Trade where one leg is within the ETR and wants that leg repriced to not breach the ETR can request that the ETR leg be repriced. The ASX will only be able to facilitate the repricing/rebooking of the leg in the ETR where:</p> <ul style="list-style-type: none"> (a) there is only one counterparty to all legs of the trade and that counterparty consents; (b) the original net price is maintained; and (c) the request is received no later than 4:40pm (Sydney time)
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5. Other comments made by respondents

ASX received other comments in regards to ETO cancellations from respondents. The main theme of this feedback was in regards to ETR cancellations. A summary of this feedback:

- ETR trades that are less than \$1500 should not be automatically cancelled but rather follow a QCR process whereby a cancellation occurs if both parties agree.
- Large dollar value errors (>\$50k) should be classified as an ETR error and therefore be cancelled.
- ETR cancellation request timing should be increased to 2 hours.
- ETR range should impose a capped spread amount.

ASX has considered the above suggestions and whilst understanding the reasons behind such requests feels that the suggestions will ultimately adversely affect the operation of the market under the current ASX cancellation policy. Some of the issues the above suggestions would create are:

- Setting a value threshold is arbitrary. Previous consultation on this topic has shown a high degree of difference in where this level should be set. The current policy of setting levels based on price difference (linked to market maker spreads) from theoretical value aligns with ASX's policy for all asset classes.
- Participants have a requirement to make sure they have appropriate pre-trade vetting in place to stop error trades from being entered. By setting minimum and maximum value levels may reduce participants' sensitivity to pre-trade controls resulting in a higher number of errors.
- Unlinking the cancellation range from market maker spreads for certain option transaction increases uncertainty and complexity of the cancellation policy which could result in more market confusion.
- Increasing the ETR cancellation request timing to 2 hours increases the potential loss for hedged trades due to the potential market movement which could occur in this increased time frame.

ASX received further feedback in regards to the ETR calculation specifically for TMCs which involved a cash leg. The feedback has suggested that in general due to the cash leg consideration being high comparatively to the option/s leg that only the options premium be used for the purposes of calculating the ETR ranges. ASX will be conducting further consultation before making any changes in respect of this.